

AFG

2018

Half-year financial results

H1 FY18 full-year financial results – Highlights

Continuing to deliver strong returns to shareholders through core growth and earnings diversification



Underlying NPAT in H1 FY18
\$14.4 million
up 11% on H1 FY17

Reported NPAT in H1 FY18
\$16.7 million



Interim dividend of **4.7 cents**
per share, an increase of **12%**
on FY17 interim dividend



Special dividend of **12 cents** per
share - A strong balance sheet
and a business model that
generates ongoing cash flows
has created an opportunity for a
special dividend



AFGHL settlements up
31% to \$1.6B



AFGHL trail book has
increased by
40% to \$6.5B



Asset financing
settlements up **26%** to
\$277 million



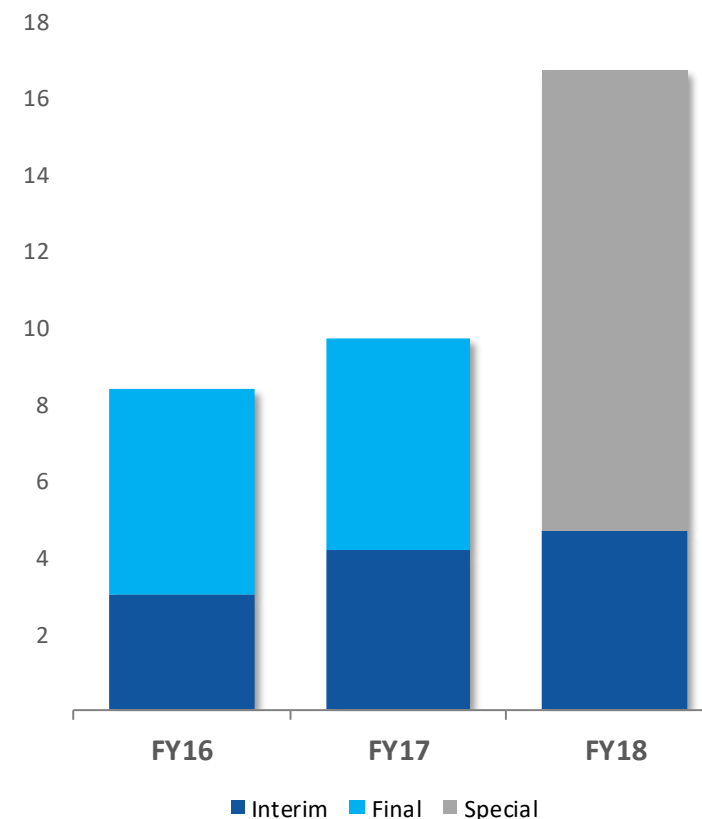
H1 FY18 Residential
settlements up 6% to
\$18.6 billion and the
Residential trail book up
11% to **\$133.6 billion**
despite industry headwinds

AFG announces special dividend

Special dividend of 12 cents per share

- AFG maintains a capital light structure and generates strong ongoing cash flow
- This organic growth has delivered year on year increased dividend payments since listing
- The strength of AFG's cash flows and balance sheet provides the company with significant financial resilience. AFG's lack of debt continues to allow the company to take advantage of merger and acquisition opportunities without significant strain on its balance sheet
- Alternatively, it provides for a flexible dividend policy to be maintained, whilst AFG continues to evaluate financially material strategic opportunities
- Ordinary dividend policy of 70 – 80% of underlying (cash) profit remains appropriate

Dividends (cents per share)



AFG: Providing increased choice and competition to borrowers

3,800+ products
45+ lenders



Over 2,900
brokers nationally



209 employees



37% of flows to non-majors up
from 35% in Q2 FY17



1 in 11
Residential mortgages
arranged by an AFG broker

H1 FY18 results – actual

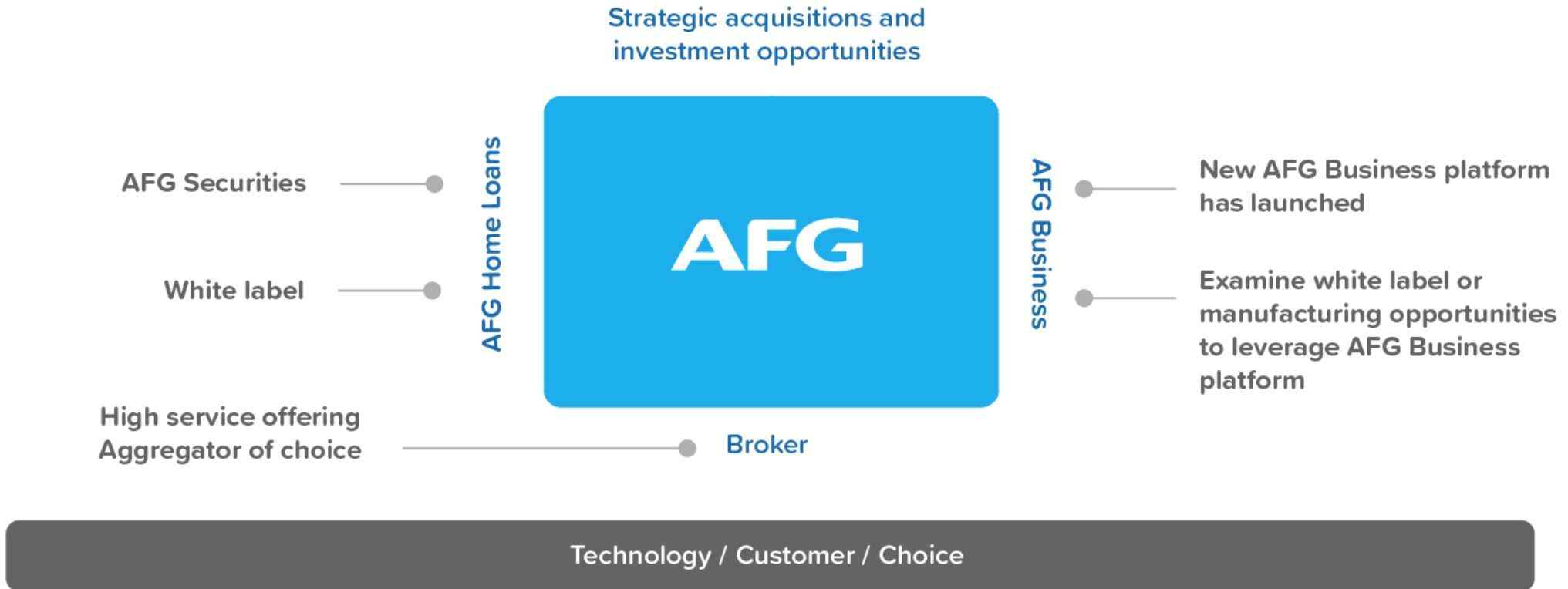
	1H18 \$000's	1H17 \$000's	
Loan Book	140,846,019	127,102,771	11%
Residential	133,609,138	120,768,449	11%
Commercial	7,236,880	6,334,322	14%
Settlements			
Residential	18,587,854	17,608,127	6%
Commercial	1,435,600	1,513,314	(5%)
AFGHL Settlements	1,621,407	1,239,435	31%
AFGHL Loan Book	6,471,066	4,606,027	40%
AFG Securities Loan Book¹	1,182,589	1,079,155	10%

¹ Subset of the AFGHL loan book

	1H18 \$000's	1H17 \$000's	
NPAT	16,738	13,371	25%
NPAT underlying	14,394	12,993	11%
Cash flows from operations	15,485	11,533	34%
Net Interest	8,363	7,063	18%
Net Interest Margin	144bp	133bp	8%
EPS	7.8 cents	6.2 cents	25%
Number of shares (diluted)	215,442	215,406	
Dividends % of underlying profit	70%	69%	
ROE	33%	30%	
P/E ratio²	10.6 x	11.0 x	
Underlying P/E ratio²	12.3 x	11.4 x	

² Based on share price at 29/1/2018 and 31/1/2017

AFG's growth strategy



Strong culture, delivering our long term strategy, focused on great customer outcomes

Strategic & market outlook

Increased volume in the residential business together with AFGHL growth strategies continue to deliver strong shareholder returns. A special dividend of 12 cents per share to shareholders is reflective of AFG's strong growth and cash flow.

Core business



Ongoing growth in shareholder returns.
Special dividend declared as a result of strong organic growth and cash flow performance while maintaining cash to fund future growth strategies.

Rapid pace of change in lending increases the need for brokers.
AFG broker numbers increasing to over 2,900.

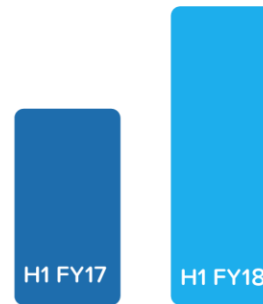
AFG credit reps increased from over 1,000 in Dec 2016 to now over 1,150.



Diversification offsetting lower credit growth



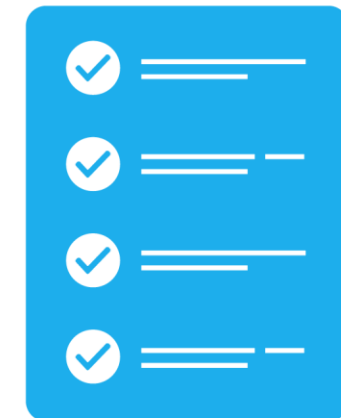
AFGHL trail book has increased by 40% to \$6.5B.



The AFG Business technology launched at the end of Q2 FY18.
The platform will provide SME customers with the same high quality customer experience from our brokers as residential customers.



Competition and choice



Our diverse lender panel provides choice and solutions for consumers despite varying lender appetite.

AFG Business

The AFG Business commercial broking platform launched to brokers

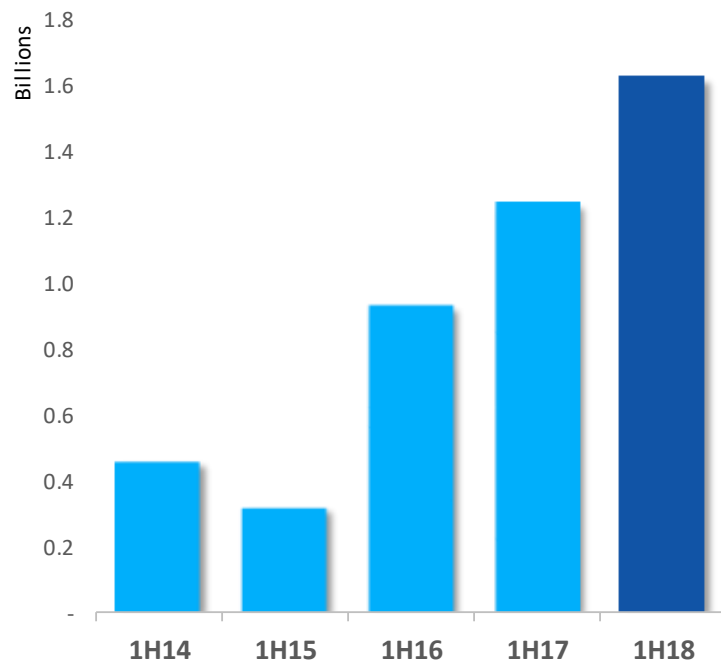
- Soft launch during H1. We continue to work closely with brokers to roll out the platform. The first settlements through the platform have occurred subsequent to half-year
- Commercial mortgages the main offering on the platform
- Scoping asset finance and unsecured finance product offerings
- Current panel of 5 core lenders aimed directly at the SME finance market



Operational update

AFG Home Loans

AFGHL Settlements



- Our diversified funding partners continue to deliver choice to consumers and we have achieved strong settlement volumes
- Four core prime mortgage funders continue to protect against individual lender appetite that may vary over time
- Increasing focus on the near prime segment through the launch of our RMBS funded AFG Link product in Q3 FY18
- January 2018 lodgements are up 7% on January 2017, continuing the positive growth trend
- AFGHL has now grown to service over 17,000 retail customers

AFG
HOME LOANS
RETRO

AFG
HOME LOANS
LINK

AFG
HOME LOANS
EDGE™

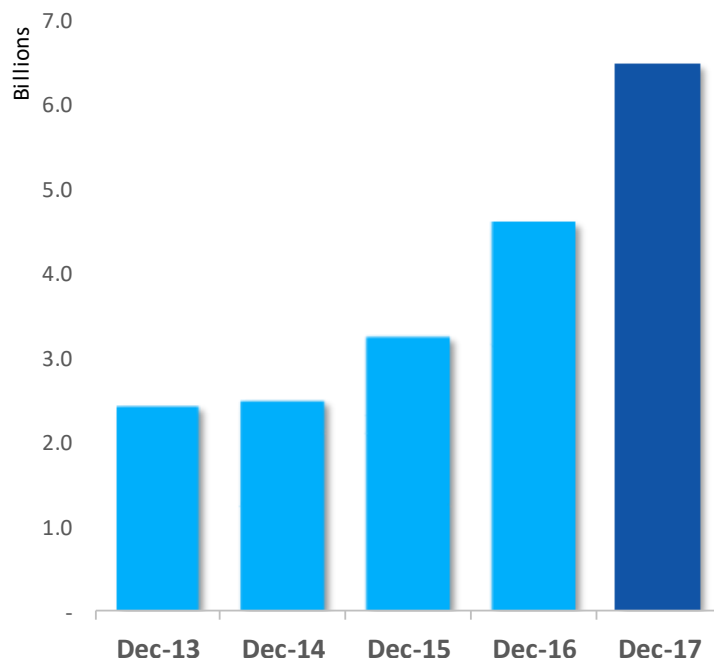
AFG
HOME LOANS
ICON

AFG
HOME LOANS
ALPHA

AFG
HOME LOANS
OPTIONS

AFG Home Loans

AFGHL Portfolio

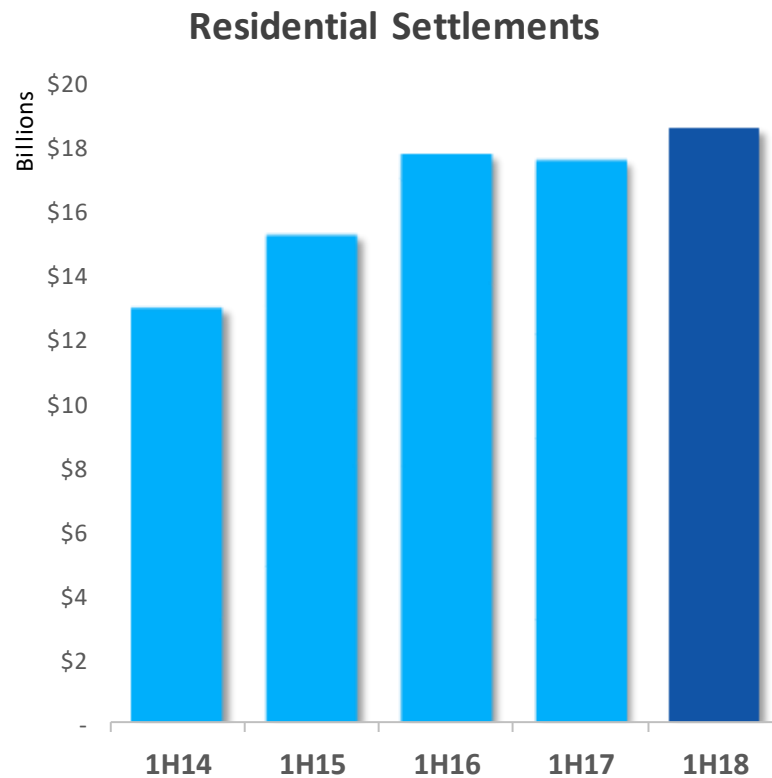


	1H18	1H17	Change
Total AFGHL Revenue	43,132	35,550	21%
AFGHL Profit before tax	9,425	4,775	97%

- AFGHL settlements grew 31% to \$1.62 billion in H1 FY18 while the loan book reached \$6.5 billion (up 40% compared to H1 FY17).
- AFGHL continues to deliver positive financial growth. Profit before tax 97% above HY FY17, this was driven by increased settlements, improved NIM and the implementation of an actuarial assessment of the AFGHLs trail book in accordance with Australian Accounting Standards in H2 FY17.
- AFGHL now represents 8.7% of overall AFG Residential settlements – up from 7.8% in FY17
- Improved net interest margin in AFG Securities compared to FY17
- Successfully completed a new term out during the half demonstrating the ongoing positive acceptance of the AFG Securities programme

Residential settlements

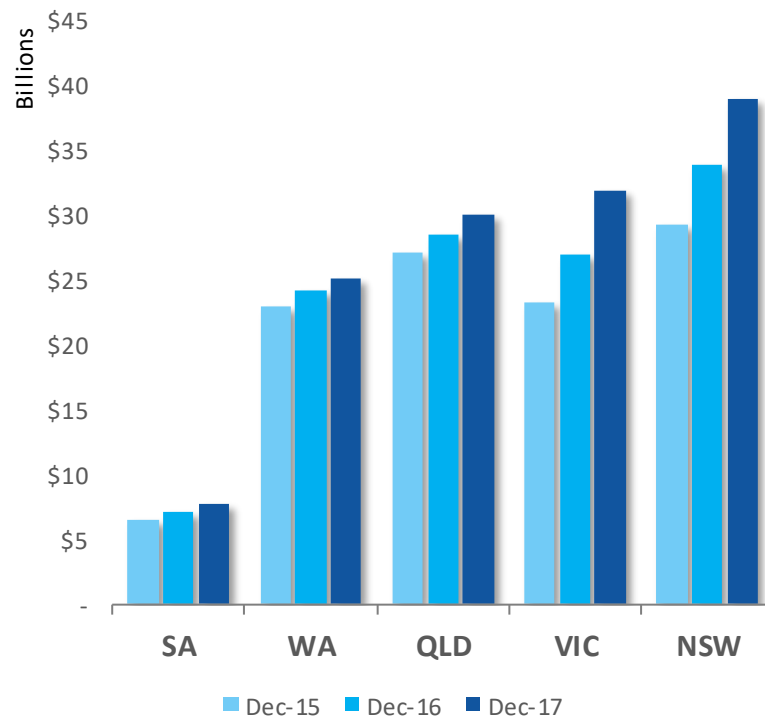
Residential settlements up 6% against H1 FY17 overall, Residential loan book increased 11% to \$133.6 billion. Victoria continued to perform strongly, with New South Wales returning to growth in H1 FY18. Economic conditions continue to be weak in Western Australia although there are early signs of improvement



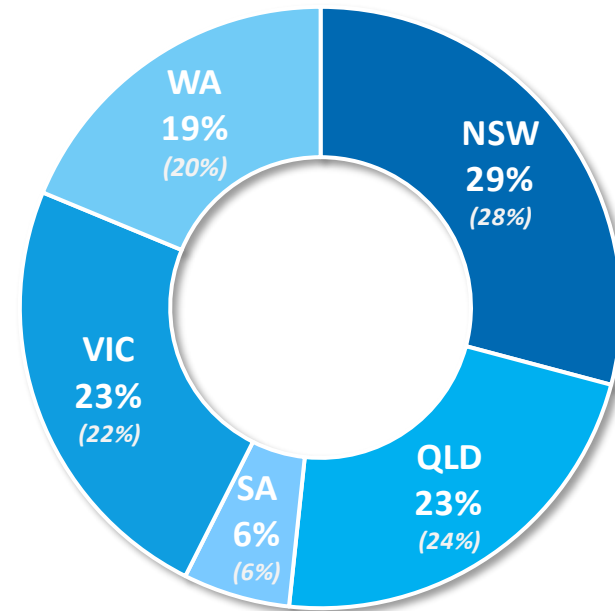
Residential portfolio – December 2017

Strong growth in Victoria and New South Wales in particular underpin the overall Residential portfolio growing from \$120.8 billion at December 2016 to \$133.6 billion at December 2017. Despite lower settlements in WA and QLD, these States continue to grow their overall portfolio indicating a slower run off rate.

Residential Portfolio by State



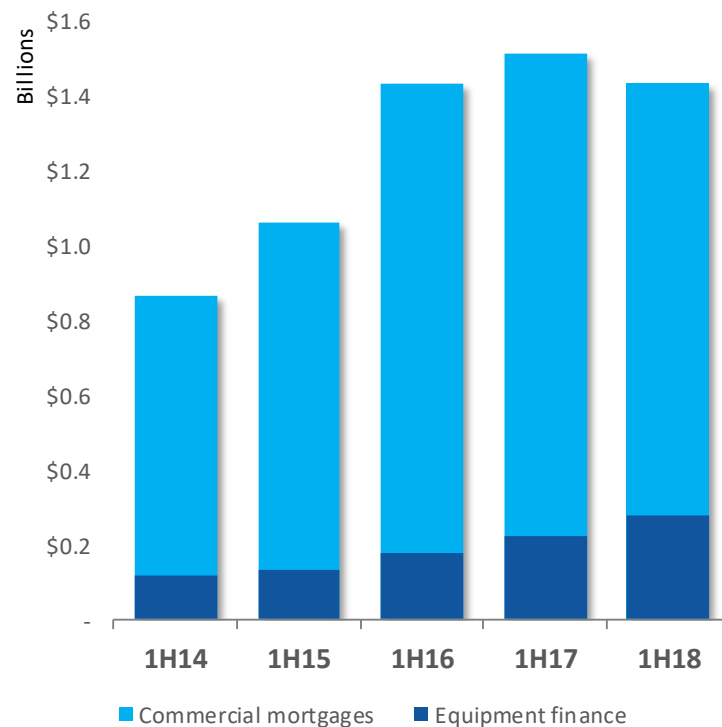
Residential Loan Book Location



Commercial settlements

Commercial settlements down by 5% compared to H1 FY17, driven by the tightening of development lending particularly impacting NSW. Individual commercial mortgage settlements ($\leq \$5m$) increased 6% on prior year while asset finance settlements up 26% compared to H1 FY17

Commercial and EF Settlements



Commercial Mortgages Settlements by State



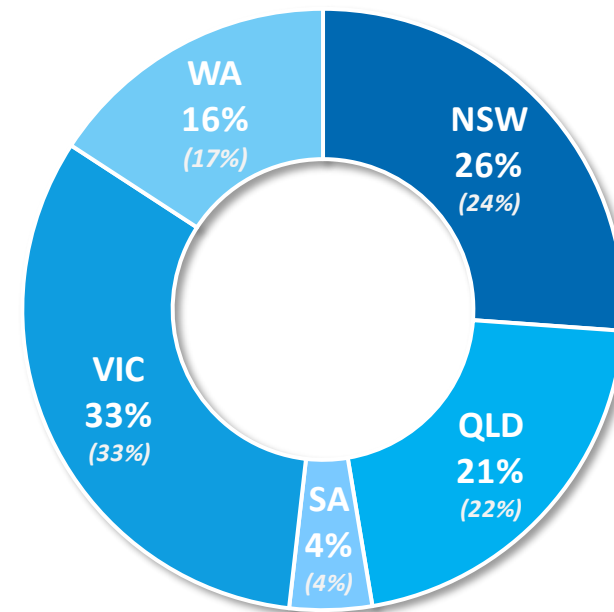
Commercial portfolio – December 2017

Commercial portfolio experienced positive growth in all states despite decreased settlements. The overall book grew by 14% to \$7.2 billion and continues to generate ongoing trail commission

Commercial Portfolio by State



Commercial Loan Book Location



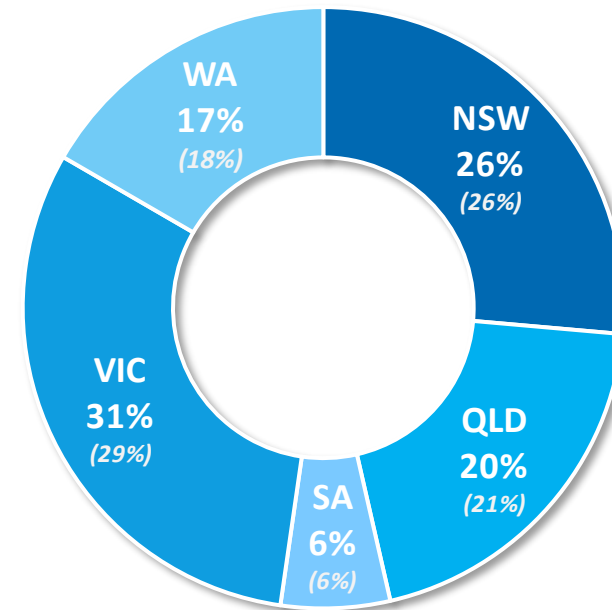
Distribution network

Over 2,900 active brokers at 31 December 2017, further extending AFG's national distribution network providing quality lending solutions and service to consumers. Growth continues to be strong in NSW and Victoria, offset by weaker conditions in other states

Broker Numbers



Broker Location



January trading

- Total Residential lodgements \$3.43 billion, up 5.5% on January 2017
- AFGHL continued its strong positive growth
- Growth in Victoria remains strong, lodgements up 14%
- Western Australia returns to positive growth, up 4% compared to January 2017

Comparison of January lodgements

Change on January 2017

NSW		5%
QLD		(8%)
SA		12%
VIC		14%
WA		4%
AFG HL		7%

Financial information

Summary P&L

- Profit after tax for H1 FY18 \$16.7 million, up 25% from \$13.4 million in H1 FY17
- Positive growth driven by AFGHL 31% increase in settlements and 97% profit before tax increase, which now incorporates the trail book value impact of AFGHL settlements in the half
- AFG Securitisation programme also delivered improved profitability through a larger loan book and stronger margins
- Growth delivered in both reported and underlying profit supporting the investment in the AFG Business initiative

	1H18	1H17
\$000's	\$000's	\$000's
Commissions	254,073	232,454
Interest on trail commission income receivable	24,557	23,630
Mortgage management services	65	249
Securitisation transaction fees	411	409
Securitisation interest income	25,595	22,628
Total Revenue	304,701	279,370
Securitisation interest expense	(17,231)	(15,565)
Interest on trail commission payable	(21,806)	(21,321)
Other cost of sales	(229,071)	(212,538)
Gross Profit	36,593	29,946
Other income	6,755	8,283
Administration expenses	(1,771)	(1,529)
Other expenses	(18,271)	(18,054)
Depreciation and amortisation	(494)	(484)
Result from operating activities	22,812	18,162
Finance income	1,321	1,226
Finance expense	(3)	(9)
Net finance income	1,318	1,217
Profit before tax	24,130	19,379
Income tax expense	(7,392)	(6,008)
Net Profit after tax	16,738	13,371

Summary cash flow

- Net cash flows from operating activities increased by 34% to \$15.5 million in H1 FY18 compared to H1 FY17. This is largely attributable to the growth in the AFGHL business delivering higher margin revenue and a positive working capital movement compared to prior period.
- Improved margins and a 10% increase in loan book in the AFG Securitisation programme also contributed to the increase in net cash flow from operating activities.
- Strong cash flows and the capital light nature of AFG's business has allowed a special dividend of 12 cents per share and will continue to drive growth in the future

	Dec 2017 \$000's	Dec 2016 \$000's
Cash receipts from customers	251,060	230,628
Cash paid to suppliers and employees	(235,800)	(220,201)
Interest received	25,595	22,628
Interest paid	(17,231)	(15,565)
Income taxes paid	(8,139)	(5,957)
Net cash from operating activities	15,485	11,533
Cash flows from investing activities	(33,188)	(35,426)
Net cash from /(used in) financing activities	19,304	16,331
Net increase in cash and cash equivalents	1,601	(7,562)
Cash and cash equivalents at the begining of period	124,801	130,665
Cash and cash equivalents at the end of the period	126,402	123,103

Cash reconciliation	Dec 2017	Dec 2016
Un-restricted net cash	89,656	86,264
Restricted cash (Securities)	36,746	36,839
Total cash	126,402	123,103

Summary balance sheet

Points to note:

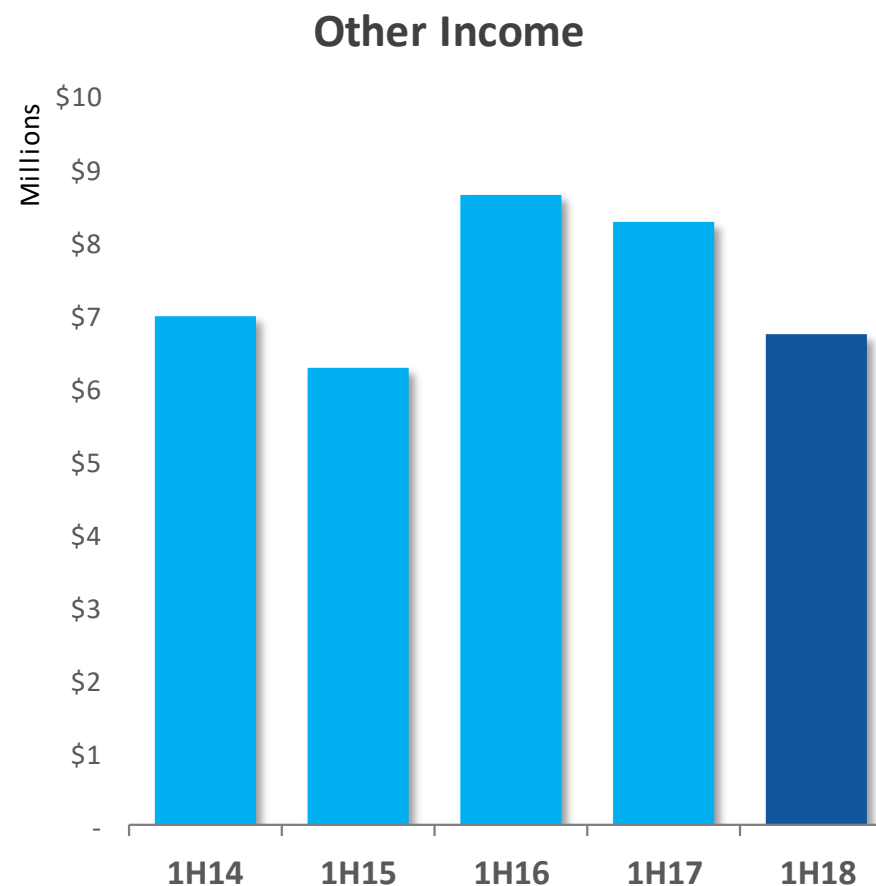
1. Includes restricted cash of \$36.7 million (\$36.8 million at 31 December 2016)
2. Predominantly related to trail book accounting including AFGHL white label trail book
3. Largely AFG Securitisation business
4. AFG continues to be capital light which assists with maintaining strong cash flows
5. Includes trail book accounting liability and general trade creditors and accruals

Total subordinated notes subscribed of \$13.9 million as at 31 December 2017 (31 December 2016: \$9.9 million) which has increased as a result of new APS 120 requirements

	Dec 2017 \$000's	Dec 2016 \$000's
Assets		
Cash ¹	126,402	124,801
Receivables ²	773,510	737,611
Loans and advances ³	1,186,086	1,152,171
Property, plant and equipment ⁴	1,619	1,898
Intangible assets	647	745
Total assets	2,088,264	2,017,226
Liabilities		
Interest bearing liabilities ³	1,195,715	1,164,478
Trade and Other payables ⁵	753,517	719,745
Employee benefits	4,007	4,559
Provisions	1,591	1,667
Deferred tax liability	20,981	19,482
Total liabilities	1,975,811	1,909,931
Net assets	112,453	107,295
Equity		
Share capital	43,541	43,541
Reserves	551	317
Retained earnings	68,331	63,410
Non-controlling interest	30	27
Total equity	112,453	107,295

Other income

- 10% growth in service fees in H1 FY18 compared to H1 FY17 driven by increasing broker numbers and increased take-up of services offered by AFG
- Sponsorship and incentive income in H1 FY18 below H1 FY17 total, impacted primarily by lower sponsorship income which is tied to broker education activity
- Despite lower Other Income than in prior years, AFG has improved our profitability overall, pointing towards quality of earnings



In conclusion

H1 FY18 continues to deliver growth in shareholders returns. Importantly we are maintaining capital for further future growth initiatives



Strong organic growth and cash flow generation capabilities of the business has allowed a Special Dividend of 12 cents per share.



Brokers continue to win market share by providing value, choice and competition to consumers. AFG is well placed to be a recipient of this growth in market share



AFG Business platform has been launched and will drive longer term growth opportunities for brokers in the commercial SME market, as well as in new markets such as asset financing



The industry will continue to evolve, which we see as an opportunity for AFG, as an agile business in the sector with access to broad distribution and funding



AFGHL continues to be a key driver of profit growth, providing improved margins. The white label offering will enhance the cash flow generation of the business



AFG will continue to be a first choice partner for lending and broking groups as we deliver the platform to support choice and competition to their business whilst maintaining high standards of compliance and governance



Despite a likelihood of continuing regulatory headwinds, our expectation is of continued growth underpinned by both AFGHL and a growing appetite for our securitised products

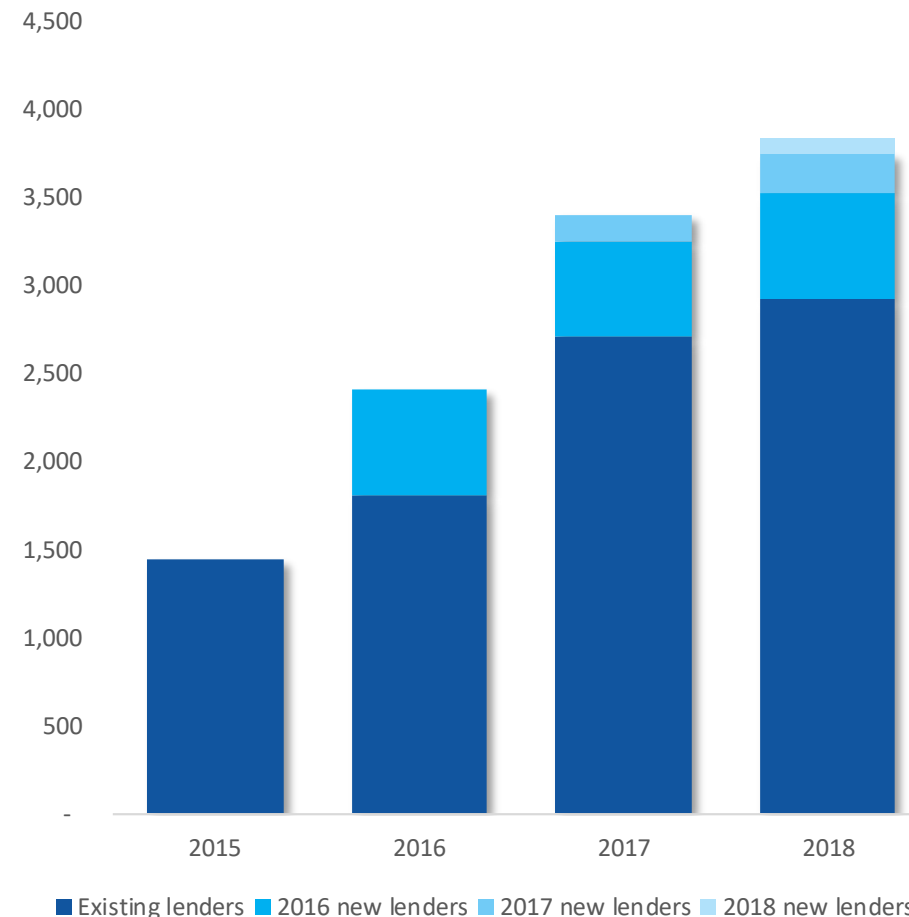
Appendices

Complexity continues to increase in the market

Market complexity continues to grow – driven by regulatory changes. This only increases the need for brokers to assist consumers

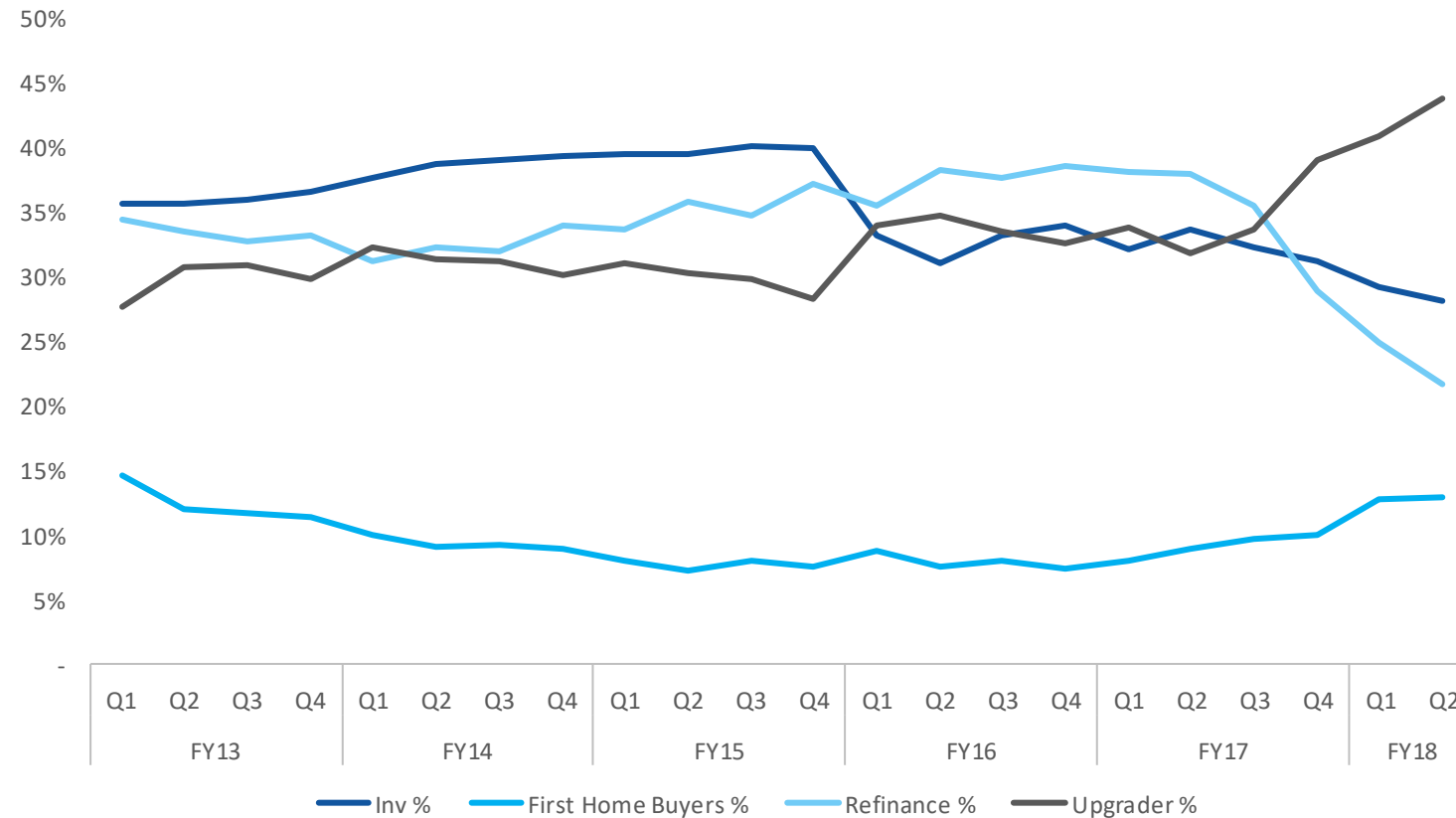
- In April 2015 over 1,450 individual products were available in AFG's software, that number is now over 3,800. Predominantly a greater number of products from existing lenders, as well as those from new lenders to the AFG panel
- Regulatory changes have driven increased complexity with products now split between owner occupied, investment, interest only, LVR and principal & interest categories and different pricing bands
- It is no wonder that broker share of the residential mortgage market was at 55.7% in the September quarter
- AFG software assists our brokers in navigating consumers through this increasingly complex market with now over 53,000 visits per month to AFG's knowledge base, BrokerHQ (increased from 28,000 in March 2015)

Residential Products



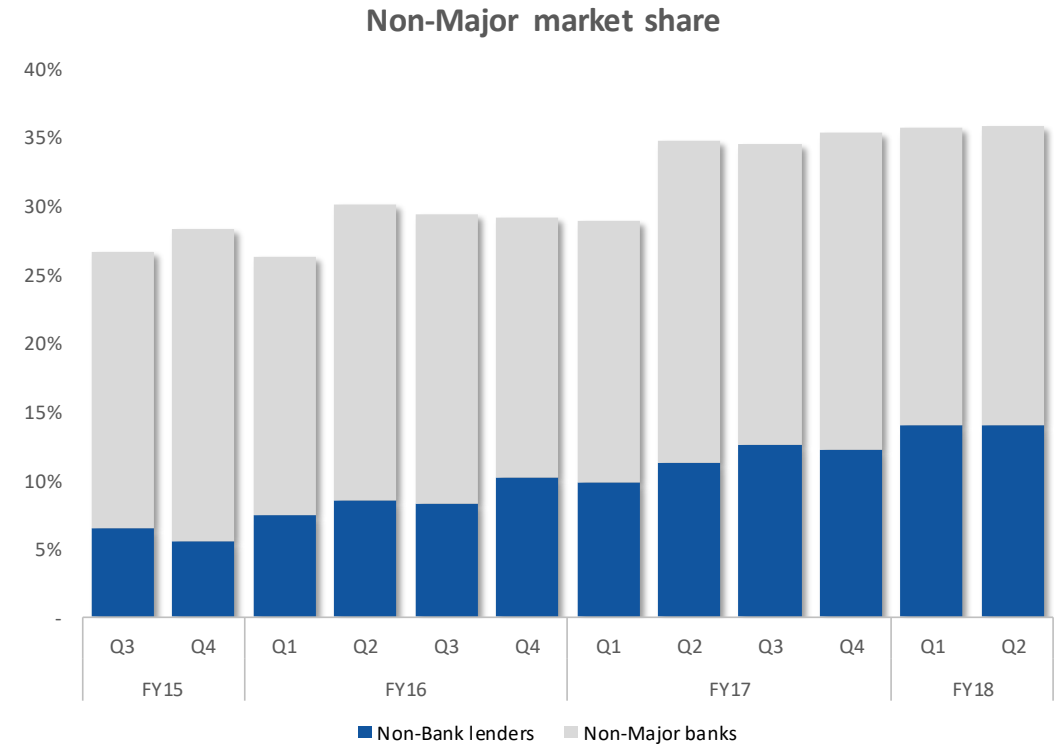
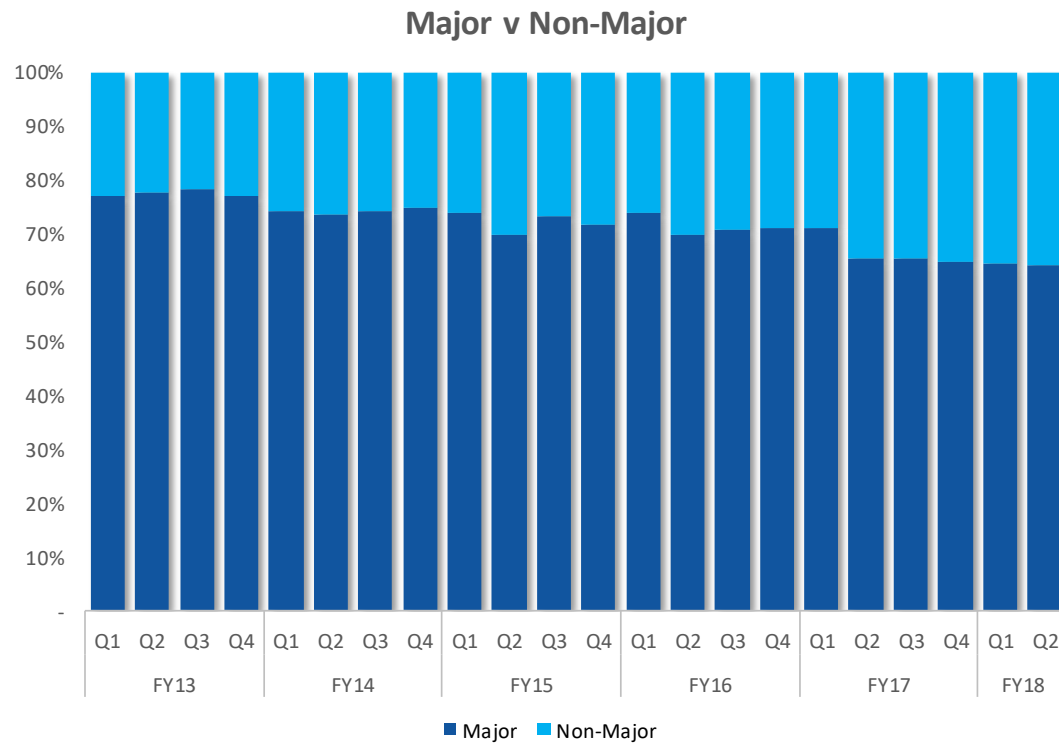
Types of lodgements

Regulatory activity continues to impact product mix with investor and refinance volumes falling, offset by first home buyers and upgraders increasing in H1 FY18. These trends have been maintained in January 2018.



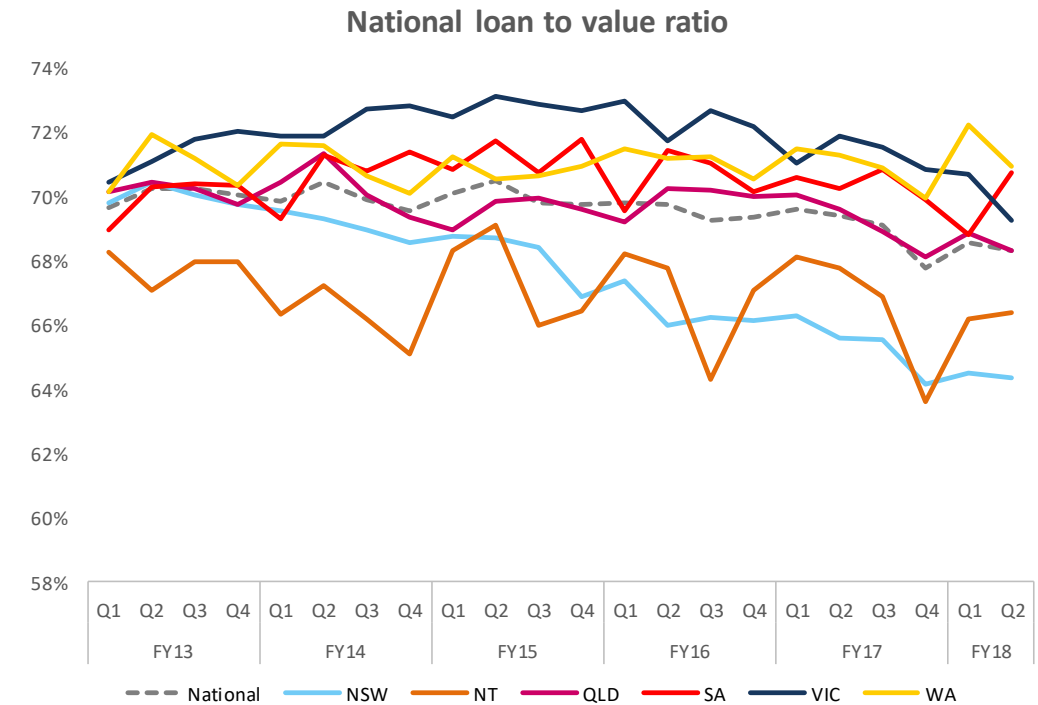
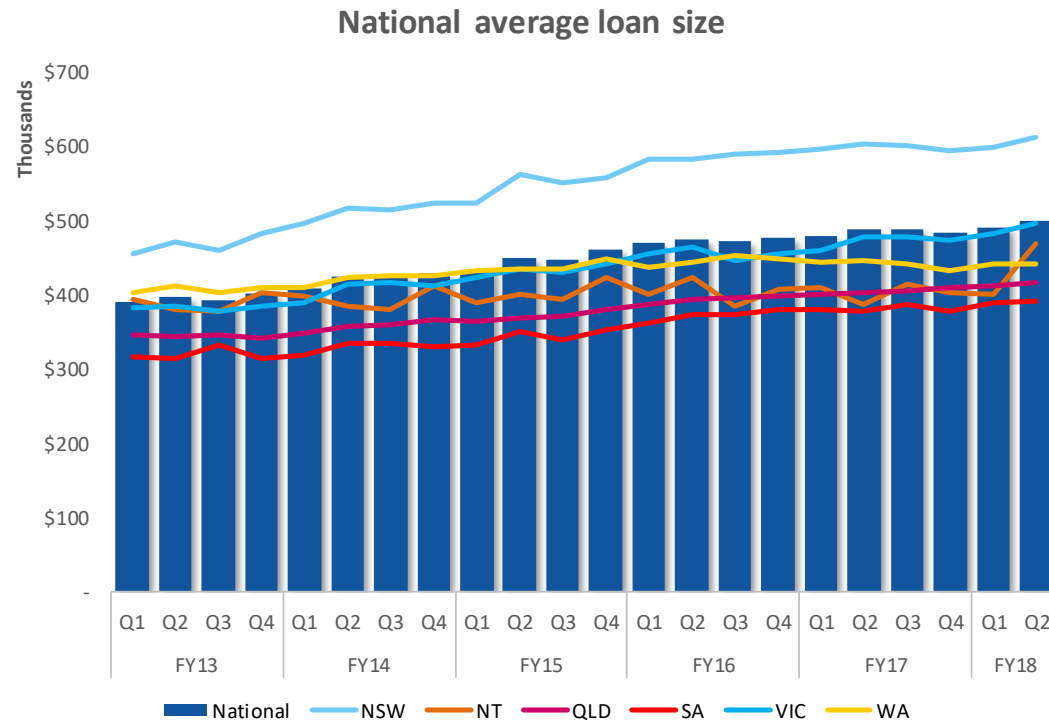
Market share

Non-majors market share continues to increase in H1 FY18, a demonstration of the choice and competition provided by brokers including an increase in the Non-bank lender market share in both FY17 and FY18



Lending activity

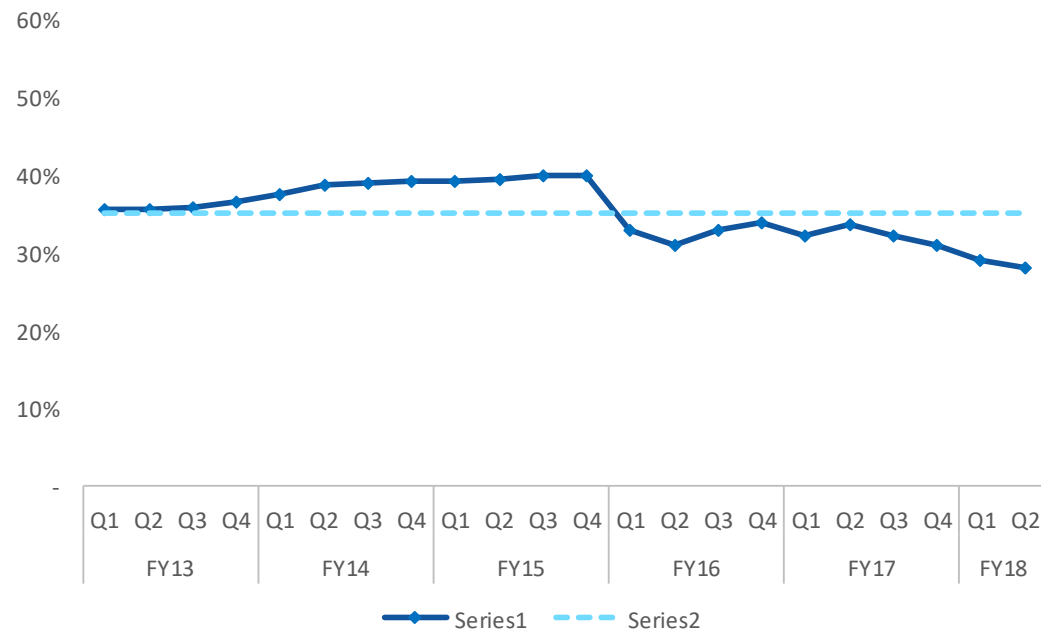
National average loan size has increased in FY18, following a decrease in Q4 FY17 predominantly driven by NSW and VIC



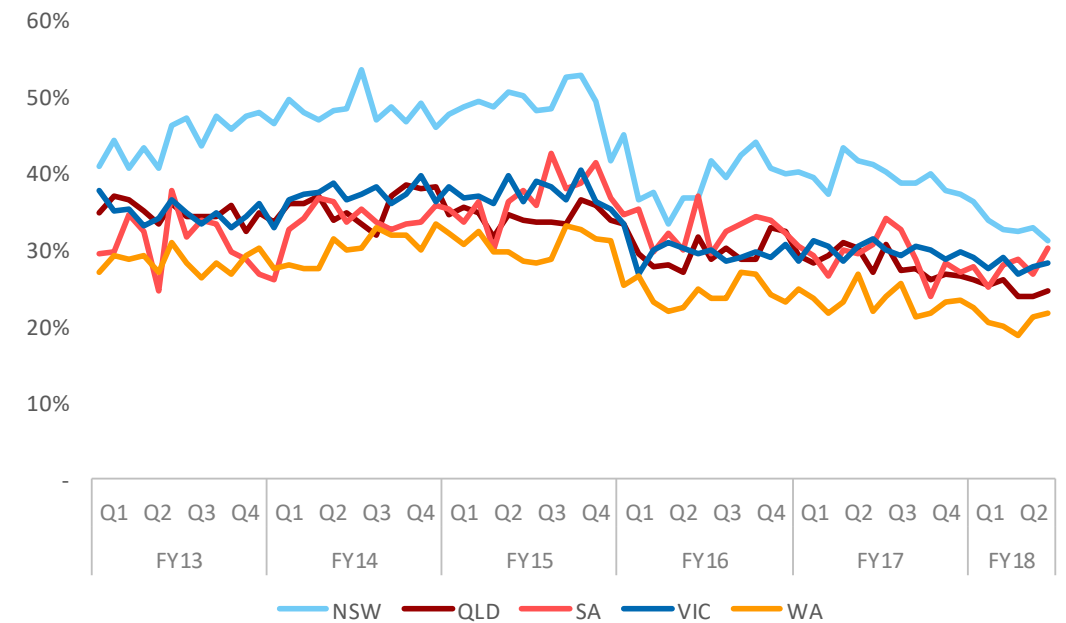
Investor loans

Further regulatory intervention has again impacted investor volumes with NSW now trending towards levels similar to other states

Investor Loans %



Investor Loans % per State



Balance sheet

	Dec 2017 \$000's	Dec 2016 \$000's
Assets		
Cash and cash equivalents	126,402	124,801
Trade and other receivables	772,508	737,580
Loans and advances	1,186,086	1,152,171
Other financial assets	1,002	31
Property, plant and equipment	1,619	1,898
Intangible assets	647	745
Total assets	2,088,264	2,017,226

	Dec 2017 \$000's	Dec 2016 \$000's
Liabilities		
Interest-bearing liabilities	1,195,715	1,164,478
Trade and other payables	751,118	715,803
Employee benefits	4,007	4,559
Current tax payable	-	1,249
Deferred income	2,399	2,693
Provisions	1,591	1,667
Deferred tax liability	20,981	19,482
Total liabilities	1,975,811	1,909,931
Net assets	112,453	107,295
Equity		
Share capital	43,541	43,541
Share-based payment reserve	642	408
Other capital reserves	(91)	(91)
Retained earnings	68,331	63,410
Total equity attributable to equity holders of the Company	112,423	107,268
Non-controlling interest	30	27
Total equity	112,453	107,295

Consolidated income statement

	Dec 2017 \$000's	Dec 2016 \$000's
Continuing Operations		
Commission and other income	279,106	256,742
Securitisation interest income	25,595	22,628
Operating income	304,701	279,370
Commission and other cost of sales	(250,877)	(233,859)
Securitisation interest expense	(17,231)	(15,565)
Gross profit	36,593	29,946
Other income	6,755	8,283
Administration expenses	(1,771)	(1,529)
Other expenses	(18,765)	(18,538)
Results from operating activities	22,812	18,162
Finance income	1,321	1,226
Finance expenses	(3)	(9)
Net finance income	1,318	1,217
Profit before tax from continuing operations	24,130	19,379
Income tax expense	(7,392)	(6,008)
Profit for the period	16,738	13,371

	Dec 2017 \$000's	Dec 2016 \$000's
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Net change in fair value of available-for-sale financial assets	-	-
Total comprehensive income for the period	16,738	13,371
Profit attributable to:		
Equity holders of the Company	16,735	13,323
Non-controlling interests	3	48
Profit for the period	16,738	13,371
Total comprehensive income for the period attributable to:		
Equity holders of the Company	16,735	13,323
Non-controlling interests	3	48
Total comprehensive income for the period	16,738	13,371
Earnings per share		
Basic earnings per share (cents per share)	7.79	6.20
Diluted earnings per share (cents per share)	7.77	6.19

Cash flows

Cash reconciliation	Dec 2017	Dec 2016
Un-restricted net cash	89,656	86,264
Restricted cash (Securities)	36,746	36,839
Total cash	126,402	123,103

	Dec 2017 \$000's	Dec 2016 \$000's
Cashflows from Operating activities		
Cash receipts from customers	251,060	230,628
Cash paid to suppliers and employees	(235,800)	(220,201)
Interest received	25,595	22,628
Interest paid	(17,231)	(15,565)
Income taxes paid	(8,139)	(5,957)
Net cash from operating activities	15,485	11,533
Cash flows from investing activities		
Interest received	1,318	1,225
Purchase of property, plant and equipment	(115)	(200)
Investment in intangible assets	-	(524)
Loans and advances	(895)	(250)
(Loans advanced to)/ repayments from borrowers	(33,496)	(35,677)
Cash flows from investing activities	(33,188)	(35,426)
Cash flows from financing activities		
(Repayments of)/proceeds from warehouse facility	(217,922)	(197,011)
(Repayments to)/proceeds from bondholders	249,100	225,099
Loans from funders	(59)	(156)
Dividends paid	(11,815)	(11,601)
Net cash from /(used in) financing activities	19,304	16,331
Net increase in cash and cash equivalents	1,601	(7,562)
Cash and cash equivalents at the beginning of period	124,801	130,665
Cash and cash equivalents at the end of the period	126,402	123,103

Impact of securitisation SPVs on balance sheet

The proforma balance sheet below shows the Group's balance sheet with the 'non-recourse' special purpose vehicles (SPVs) relating to the securitisation business and the balance sheet of the Group separately

	AFG SPV's \$000's	AFG ex SPV's \$000's	Re-classifications	AFG Limited \$000's
Assets				
Cash	35,524	90,877	-	126,402
Receivables	-	773,511	-	773,511
Loans and advances	1,182,489	3,598	-	1,186,086
Investment in subordinated notes	-	13,867	(13,867)	-
Property, plant and equipment	-	1,619	-	1,619
Intangible assets	-	647	-	647
Total assets	1,218,013	884,119	(13,867)	2,088,265
Liabilities				
Interest bearing liabilities	1,210,625	(1,043)	(13,867)	1,195,715
Trade and Other payables	6,653	746,864	-	753,517
Employee benefits	-	4,007	-	4,007
Provisions	-	1,591	-	1,591
Deferred tax liability	-	20,981	-	20,981
Total liabilities	1,217,279	772,400	(13,867)	1,975,811
Net assets	735	111,720	-	112,454

Points to note:

1. The AFG business is largely debt free outside the non-recourse securitisation book within the special purpose vehicles
2. AFG's total subordinated notes subscribed of \$13.9 million (FY17: \$10.6 million) reflects the total cash exposure to the securitisation business at 31 December 2017. Growth is due to the larger loan book and the impact of APS 120.

Impact of trail book accounting

Statutory	Dec 2017 \$000's		Jun 2017 \$000's	
	Operating income	Profit After Tax	Operating income	Profit After Tax
Underlying results from continuing operations	271,071	14,394	248,227	12,993
Change in the carrying value of trailing commission receivable and payable	33,630	2,344	31,143	378
Results from continuing operations	304,701	16,738	279,370	13,371

Key Assumptions	Dec 2017	Jun 2017
Average loan life	Between 3.1 and 5.0 years	Between 3.1 and 5.0 years
Discount rate per annum ¹	Between 5% and 13.5%	Between 5% and 13.5%
Percentage paid to members ²	Between 85% and 93%	Between 85% and 93%

¹ Discount rates once set are not adjusted during the life of the loan. The spread in discount rate captures loans settled in previous financial years as well as the current financial year.

² The percentage paid to members is fixed by the terms of their agreement with the Group. As a consequence, management does not expect changes to the percentage paid to members to be reasonably possible.

Q & A
Thank you

Important disclaimer

This presentation contains general information which is current as at 23 February 2018.

The information is intended to be a summary of Australian Finance Group Limited (AFG) and its activities as at 31 December 2017, and does not purport to be complete in any respect.

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